The Securities Industry in New York City

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Report 12-2012 **October 2011**

Highlights

- **One in 8 jobs in New York City and 1 in 13 jobs in New York State are linked to the securities industry.**
- **Securities-related activities accounted for 14 percent of New York State's tax revenues and almost 7 percent of New York City's.**
- **Profits declined by 10.8 percent in the first half of 2011 to $12.6 billion. OSC forecasts that profits are unlikely to reach $18 billion for the entire year, one-third less than in 2010.**
- **Even though compensation at most firms grew in the first half of 2011, cash bonuses are likely to be smaller than last year because earnings are likely to be weaker in the second half of 2011.**
- **One out of every three jobs lost during the recession in New York City was in the financial services sector (i.e., securities, banking, insurance, and real estate).**
- **The securities industry could lose an additional 10,000 jobs by the end of 2012, which would bring total job losses in the industry to 32,000 since January 2008.**
- **The banking sector is also likely to experience significant job losses over the next 12 months.**
- **In August 2011, the number of securities industry jobs outside of New York City accounted for 11.9 percent of all securities jobs in New York State, the highest share ever.**
- **In 2010, the average salary in the securities industry in New York City grew by 16.1 percent to $361,330, which was 5.5 times higher than the average in the rest of the private sector.**
- **The New York Stock Exchange will merge with Deutsche Boerse AG to form the world's largest exchange group, with headquarters in Frankfurt and New York City. The impact of the merger on the City's economy is unclear.**

Wall Street recovered quickly from historic losses in 2007 and 2008 (greatly aided by the intervention of the federal government), but it still faces significant challenges. These include the ongoing European sovereign debt crisis, an economic slowdown in the United States, regulatory changes, heightened market volatility and slumping market indices.

The securities industry is still evolving in response to changes in its regulatory environment, but it has already altered some of its practices. New regulations are raising capital reserves, limiting proprietary trading and other activities, and revising compensation practices to reward long-term performance rather than short-term gains.

Last year, the member firms of the New York Stock Exchange (NYSE) earned less than half of the record profits earned in 2009, reflecting a large drop in revenue from proprietary trading. In the first half of 2011, profitability has continued to decline. In response, the industry has resumed downsizing and has announced a new round of layoffs.

Since April 2011, the securities industry in New York City has lost 4,100 jobs. The Office of the State Comptroller (OSC) forecasts that the City could lose nearly 10,000 additional jobs by the end of 2012, which would bring total job losses in the securities industry to 32,000 since January 2008. Additional job losses are expected in banking and in other parts of the financial services sector.

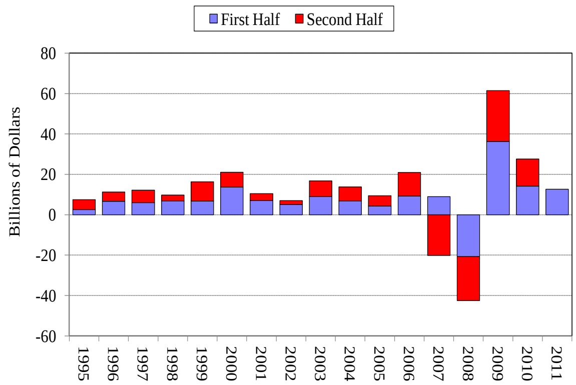
The securities industry is critically important to the economies and budgets of New York State and New York City. It now seems likely that profits will decline sharply from last year's level, job losses will grow, and cash bonuses will be smaller. Such developments would have a ripple effect through the rest of the local economy and hinder the recovery. In addition, tax collections are likely to fall short of expectations for this year and next year, complicating already tough fiscal situations for New York State and New York City.

Wall Street Profits

Pretax profits at NYSE member firms from traditional broker/dealer operations totaled $27.6 billion in 2010, which was $33.8 billion less than the record set in 2009. (The industry reported record losses in 2007 and 2008.) Even though profits in 2010 were less than half of the amount reported in 2009, it was still the second-best year on record (see Figure 1). The large decline in profitability reflected a sharp drop in net revenue (18.1 percent), resulting from a falloff in revenue from proprietary trading, and higher noninterest expenses (3.1 percent).

Figure 1

Pretax Profits at Securities Firms



Note: Results are for broker/dealer operations of New York Stock Exchange member firms.
Sources: Securities Industry and Financial Markets Association, NYSE Euronext

Although revenues grew during the first half of 2011 (12.5 percent), expenses grew even faster (18.7 percent). Compensation, which accounts for about 60 percent of noninterest expenses, increased by 18.7 percent during this period, compared to the same period one year earlier. As a result, profits declined during the first half of 2011 by 10.8 percent, to $12.6 billion.

As in 2010, profits this year were much lower in the second quarter than in the first quarter. While profitability rebounded strongly during the second half of 2010, this appears unlikely to recur in the second half of 2011, given advance reports of poor third-quarter performance at several major firms. Consequently, OSC forecasts that profits at NYSE member firms are unlikely to reach $18 billion for all of 2011 (a decline of 35 percent from the prior year). The City's four-year financial plan forecasts profits of $20 billion in 2011 and $14 billion in 2012.

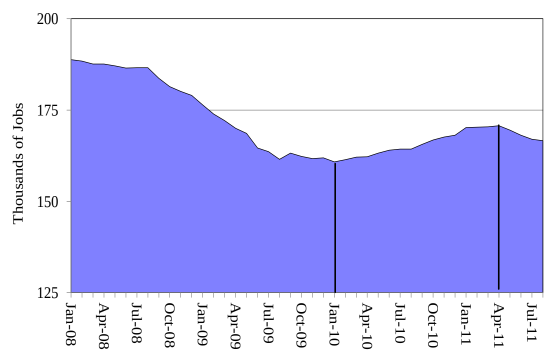
Employment

Between January 2008 and January 2010, the securities industry lost 28,100 jobs (a decline of 14.9 percent), but it regained 9,900 jobs between January 2010 and April 2011 (see Figure 2). Since April, however, job losses have resumed and the industry has lost 4,100 jobs as of August 2011.

It seems likely that job losses will continue for the foreseeable future given declines in profitability and recent layoff announcements. OSC estimates that the securities industry in New York City could lose nearly 10,000 additional jobs by the end of 2012. In that case, total losses since January 2008 would reach 32,000 jobs. This would represent a contraction of nearly 17 percent, which is still less than the job losses incurred during the early 1990s and early 2000s (which averaged about 20 percent).

Figure 2

Securities Employment in New York City



Note: Data have been seasonally adjusted.
Sources: NYS Department of Labor; OSC analysis

The securities industry in the rest of New York State suffered a similar decline in employment (nearly 13 percent) during the recession. Nevertheless, while securities industry employment in New York City remains far below its prerecession level, securities employment throughout the rest of New York State now slightly exceeds prerecession levels.

In August 2011, the number of securities industry jobs outside of New York City accounted for 11.9 percent of all securities jobs in New York State, the highest share ever. The shift reflects the continued movement of back-office operations out of New York City to lower-cost areas, as well as the growth of disaster preparedness backup facilities following the terrorist attacks of September 11, 2001.

The banking sector lost 12,900 jobs in New York City between December 2006 and November 2009, a decline of 13.3 percent. Since then, banking has regained 2,000 jobs, but recent announcements of large-scale layoffs are likely to include jobs in New York City.

Overall, the financial services sector (consisting of securities, banking, insurance, and real estate) in New York City lost 46,900 jobs during the recession. Although the sector employs only 12 percent of the City's workforce, one out of every three jobs lost during the recession was in this sector. While financial services recovered 10,600 jobs through August 2011, the sector is likely to experience significant job losses over the course of the next year.

Compensation

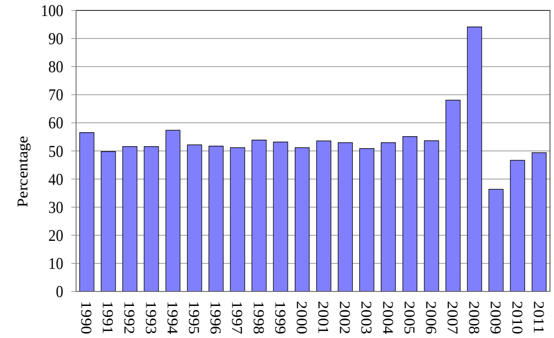
Compensation at the member firms of the NYSE totaled $37.2 billion in the first half of 2011, which was 18.7 percent more than in the first half of 2010. The increase reflects higher staffing levels than one year earlier, even though the industry has begun to shed jobs, and an increase in base pay in response to regulatory changes that discourage large cash bonuses. A recent Federal Reserve report found that large firms have made progress in modifying compensation practices to limit risky behavior, but more needs to be done.

In general, compensation grew during the first half of 2011 at most Wall Street firms, regardless of their size or line of business. Compensation at the nation's six largest bank holding companies, which include banking as well as brokerage businesses, grew by 4.1 percent in the first half of 2011. Our survey of compensation trends at 30 smaller Wall Street firms found that compensation grew by 6.1 percent during this period. However, compensation growth will likely slow or even decline in the second half of the year, as firms downsize and reduce the amounts set aside for bonuses as a result of lower profitability.

Compensation as a share of net revenue was 49.4 percent in the first half of 2011, in line with the average before the financial crisis (see Figure 3). In 2008, the ratio surged to 94 percent because firms sought to retain their best employees even in the face of declining revenues. The ratio declined sharply in 2009 as revenues surged to record levels because of easy access to low-cost funds and gains from proprietary trading.

Figure 3

Ratio of Compensation to Net Revenues



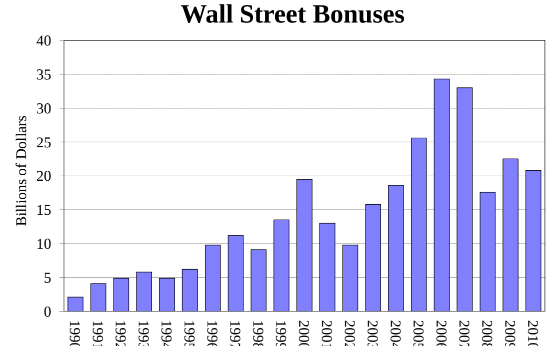
Note: 2011 is first half only.
Sources: SIFMA; NYSE Euronext; OSC analysis

Wall Street Bonuses

Financial firms, like most businesses, report compensation (i.e., base salaries, fringe benefits, and bonuses, including deferred remuneration) on an accrual basis of accounting. As such, cash bonuses paid in January through March of one year (for work performed during the prior calendar year) are reported in the prior year's financial statements. For example, most of the resources that are being set aside for cash bonuses in 2011 will be paid out during the first quarter of 2012.

Figure 4

Wall Street Bonuses



Note: Bonuses are for securities industry jobs located in New York City.
Sources: NYS Department of Labor; OSC analysis

In February 2011, OSC estimated that the amount of cash bonuses paid to securities industry workers in New York City for work performed in 2010 declined by 7.5 percent, to $20.8 billion (see Figure 4), after a 27.4 percent increase in 2009. Given current trends, it appears likely that cash bonuses will decline for work performed in 2011 although it is still too early to predict by how much.

Wages

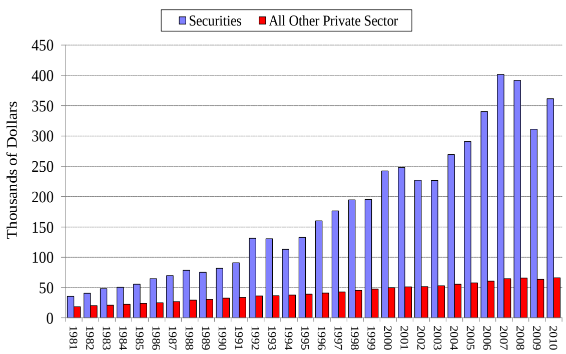
Wages (including bonuses) paid to securities industry employees who work in New York City grew by 13.7 percent in 2010, to $58.4 billion. Nonetheless, wages remained below the record paid in 2007 ($73.9 billion), reflecting job losses. In 2010, the securities industry accounted for 23.5 percent of all wages paid in the private sector even though it accounted for only 5.3 percent of all private sector jobs. In 2007, the industry accounted for 28.2 percent of private sector wages.

In 2010, the average salary in the securities industry in New York City grew by 16.1 percent to $361,330 (see Figure 5), which was 5.5 times higher than the average salary in the rest of the private sector ($66,120). In 1981, the average salary in the securities industry was only twice as high as in all other private sector jobs.

Figure 5

Average Salaries in New York City

Securities Industry vs. All Other Private Sector Industries



Note: 1981-1999 data are on SIC basis; 2000-2009 are on NAICS basis.
Source: NYS Department of Labor

The disparity between average salaries in the securities industry and the rest of the private sector peaked in 2007 and then narrowed somewhat in the following two years as the securities industry experienced historic losses. In 2010, the disparity between the securities industry and other employment sectors widened.

The average salary in the securities industry in New York City was also much higher than in such jobs in the rest of New York State ($209,500) and the rest of the nation ($154,600). The higher salaries in New York City reflect a greater concentration of the most highly compensated positions in the industry, such as chief executives and investment bankers.

Tax Revenues

OSC estimates that between City Fiscal Year (CFY) 2008 and CFY 2010, collections from personal income and business taxes related to the securities industry fell by more than 50 percent, to $2.3 billion.[1] In CFY 2011, tax receipts rose to nearly $2.6 billion, but the industry's share of City tax revenues remained below 7 percent, or almost half of the prerecession level of 13 percent.

New York State depends on Wall Street even more than New York City does, because the State relies more heavily on personal and business taxes. The State also receives tax payments from the many industry employees who commute from the suburbs outside of the City, and from the larger statewide pool of capital gains realizations.

OSC estimates that securities industry-related payments for the State's personal and business income taxes declined by almost one-third between State fiscal year (SFY) 2007-2008 and SFY 2010-2011, to $8.6 billion. As a result, Wall Street's share of State tax revenues fell from more than 20 percent before the financial crisis to 14 percent in SFY 2010-2011.

The industry's current weakness has led OSC to estimate that Wall Street-related tax collections will fall short of City and State targets in their current fiscal years and that the shortfalls could be even greater next year. As Wall Street's slowdown affects business and personal spending in the rest of the economy, overall tax collections will also weaken, widening the State and City budget gaps.

Economic Multiplier

OSC estimates that each job created (or lost) in the securities industry leads to the creation (or loss) of almost two additional jobs in other industries in the City. (The large income losses during the crisis have slightly reduced the value of the multiplier compared with earlier estimates.) OSC also estimates that each new Wall Street job creates one additional job elsewhere in New York State, mostly in the City's suburbs. Based on these multipliers and the current level of Wall Street employment, 1 in 8 jobs in the City and 1 in 13 jobs in the State are linked (directly or indirectly) to the securities industry.

[1] The estimate excludes revenue from real property or transaction taxes, and sales taxes on industry purchases.

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